

COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION  
PUBLIC DISCLOSURE

Texas Coastal Bank	6731 Spencer Highway
Name of Institution	Street
Pasadena	Harris
City	County or Parish
Texas	77508
State	Zip Code
Mario E. Fuentes	
Examiner-in-Charge	

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~~CRA PERFORMANCE ASSESSMENT~~**GENERAL INFORMATION**

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Texas Coastal Bank, Pasadena, Texas**, prepared by **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of January 21, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

Although the bank's assessment area includes only one populated low-income census tracts the number of consumer loans made to low- and moderate-income persons indicates a commitment on the bank's part to serve all segments of its community.

**DESCRIPTION OF INSTITUTION**

Texas Coastal Bank is a part of a chain banking group and is located at 6731 Spencer Highway in Pasadena, Texas. As of September 30, 1996, the bank had total assets of approximately \$14 million, which reflects a slight increase over the same period in 1995. Loans represent almost 61 percent of deposits for this time period. The primary lending emphasis is commercial real estate and commercial industrial which are 50.07 percent and 23.24 percent of the bank's loan portfolio, respectively. Consumer loans are 8.01 percent of the bank's portfolio. It offers such consumer loan products as automobile, boat, business, and personal loans, as well as Small Business Administration guaranteed loans, and FHA Title I Home Improvement Loans.

The bank's ability to meet various community credit needs has not been hampered by its capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area, or the lending opportunities available in the institutions assessment area, but is somewhat affected by the economic factors present in the assessment area.

The asset distribution by loan type is as follows as of September 30, 1996:

<b>LOAN TYPE</b>	<b>DOLLAR AMOUNT (THOUSANDS)</b>	<b>PERCENT OF TOTAL LOANS</b>
Real Estate:		
Construction	\$ 57	0.84%
Residential 1-4	416	6.15
Multifamily	0	0.00
Commercial	3,387	50.07
Agricultural	0	0.00
Total Real Estate	3,860	57.06
Consumer:		
Open-end credit	0	0.00
All other	542	8.01
Commercial and Industrial	1,572	23.24
Agricultural	2	0.03
State and Political Obligations	0	0.00
Other	789	11.66
Total	\$ 6,765	100.00%

## **~~DESCRIPTION OF THE CITY OF PASADENA~~**

The city of Pasadena is located in southeast Harris County in the Houston Metropolitan Statistical Area (MSA) and is ranked as one of Texas' 15 largest cities with a population of 119,363 according to 1990 census data. The population has increased at a relatively fast pace in the 1970's and concluded in 1980 with the city becoming a large suburban community of 112,560 people and 59.5 square miles from its start as a handful of farmers on 1.7 square miles in the early 1890's.

The neighboring Houston Ship Channel makes Pasadena home to one of the world's largest concentrations of oil-refining and chemical-manufacturing facilities. In addition, the Pasadena Independent School District and the San Jacinto College System are also major employers in the area. The bank's assessment area is composed of four low-income census tracts (one with a population of 4,299 and the other three unpopulated), 13 moderate income census tracts, nine middle income census tracts, and four upper income census tracts. A review of the status of housing units in the assessment area revealed that, in low income census tracts, 80.6 percent were renter-occupied units. In upper income census tracts, 74.6 percent of the units are owner-occupied and 17.9 percent are renter-occupied, with 7.4 percent vacant. Interviews with two contacts, one in the social services area and the other in the low income housing area indicated a need for affordable housing. The MSA median income is \$45,300.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Texas Coastal Bank's performance under CRA is acceptable. A review of the bank's loan-to-deposit ratio, lending in and out of its assessment area, and lending in the various geographies revealed adequate activity in low- and moderate-income areas and to persons of low- and moderate-income status. A comparison of the bank's loan-to-deposit ratio with another similarly-situated bank indicated a ratio in excess of the other institution, even when the figure was adjusted for participations. An in-depth analysis of the bank's lending patterns in terms of lending to borrowers of various income levels and businesses of different revenues was difficult because current, up-dated financial information was not always obtained. The bank is well known in the community, as the community contacts indicated, and provides borrowing opportunities for the members of its assessment area. The bank's initial assessment area included the city of Pasadena, however, examiner analysis revealed that a number of loans were made to neighboring LaPorte and Deer Park, Texas. Bank management indicated an adjustment to its assessment area would be made to include these two areas and more accurately reflect its service area. The bank's performance did not exceed the requirements in some or all of the performance criteria, however, a review of investments and services was conducted. The bank has sought opportunities in its community to provide loan products to low- and moderate-income persons and/or areas.

The bank has committed to fund approximately \$275 thousand for a bridge loan for interim construction of a low income, 30-unit housing project being constructed to serve as a women's shelter. The loan will be made to Women Opting for More Affordable Housing

~~Now, Inc. ("Woman, Inc."). The interim loan will be bought out with a tax credit equity purchase~~ at maturity. In the event, the tax credit does not materialize, the bank will maintain the loan as a term note until maturity. Woman, Inc. is a non-profit community housing development organization comprised of executive directors from eight area battered women's centers. The purpose of the organization is to develop affordable housing for women leaving emergency shelter centers that serve the 13 county Houston-Galveston area. The waiting time currently for subsidized housing in the area is from one to three years. Each housing unit should include social services and on-site day care.

No substantive violations of the antidiscrimination laws and regulations (ECOA, FHA, or HMDA) were identified during the examination process. Bank management and staff were found to be knowledgeable of the requirements of the antidiscrimination laws.

### **LOAN TO DEPOSIT RATIO**

The institution's average loan-to-deposit ratio is acceptable in light of its performance context, which includes the institution's capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area, demographic and economic factors present in the assessment area, and the lending opportunities available in the institution's assessment area.

The bank's average loan-to-deposit ratio since the last consumer affairs examination is 56.69 percent. As of September 30, 1996, the bank's total loans represented 59.35 percent of total deposits. The unadjusted national peer ratio for the same period was 62.01 percent. In an effort to better evaluate the bank's performance in relation to its immediate peer group, a loan-to-deposit ratio analysis was made of another bank chartered in Pasadena, Texas, although of a larger asset size. The September 30, 1996, ratio for that bank is 24.52 percent. When adjustments are made for participations purchased, Texas Coastal has a loan-to-deposit ratio of 39.87 percent, which is still higher than the local competitor.

### **LENDING IN ASSESSMENT AREA**

A review of sampled loans originated during the period of July through November 1996, indicated a majority of the loans extended were located inside the assessment area; however, the institution might consider extending its assessment area to include LaPorte and Deer Park, Texas. The analysis encompassed 49 small business, 37 consumer loans, and 12 mortgage loans (from the bank's 1995 Home Mortgage Disclosure Act Loan Application Register ("HMDA-LAR")). Of the consumer loans sampled (using the bank's current assessment area), approximately 59 percent were in the bank's assessment area, and 71 percent of small business loans were within the assessment area. If the assessment area is adjusted to include LaPorte and Deer Park, 84 percent of consumer and 77 percent of small business loans are in the assessment area. The review indicated that the percentage of small business loans in the assessment area remained virtually unchanged which means most small business loans are made to businesses in Pasadena.

Bank management stated that the assessment area would be adjusted in February to include all areas where the bank receives the majority of its loans.

**~~LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES~~**

A review of the bank's distribution of loans in its assessment area by business revenue and borrower income was performed on the sampled loans. The loan distribution across the business revenues revealed an adequate distribution. The number of files with current financial information, however, was limited. As a result, the numbers may not accurately reflect the bank's level of lending across the business revenue levels. Of the commercial loans sampled, almost 63 percent were made to businesses with revenues of less than \$1 million. The chart below further details the bank's lending to small businesses in its assessment area.

<b>1995 COMMERCIAL LOAN SAMPLE</b>			
<b>GROSS REVENUES OF BUSINESS (THOUSANDS)</b>	<b>NUMBER OF LOANS BY BUSINESS REVENUE</b>	<b>NUMBER OF LOANS BY INCOME OF APPLICANT</b>	<b>PERCENT OF TOTAL LOANS</b>
<b>\$0 - 100</b>	2	6	50.00
<b>\$100 - 250</b>	0	2	12.50
<b>\$250 - 1,000</b>	0	0	0.00
<b>OVER \$1,000</b>	6	0	37.50
<b>TOTAL *</b>	8	8	100.00

\*Total does not include 41 loans with missing income, revenue information or does not include loans made outside the bank's assessment area.

The analysis of consumer loans consisted of analyzing borrower income as a percentage of the MSA median family income. A breakdown by income range for each category is detailed in the chart below:

MSA MEDIAN FAMILY INCOME \$45,300		
INCOME CATEGORY	INCOME RANGE AS A	UPPER LIMIT OF
LOW-INCOME	0 - 50%	\$22,650
MODERATE-INCOME	50 - 80%	\$36,240
MIDDLE-INCOME	80 - 120%	\$54,360
UPPER-INCOME	120% and over	over \$54,360

An analysis of the loan distribution among the various income levels is detailed on the following chart and revealed an adequate distribution of loans.

Loan Sample by Income Level				
	Mortgage Loan		Consumer Loan	
INCOME CATEGORY	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS	NUMBER OF LOANS BY INCOME OF	PERCENT OF TOTAL LOANS
LOW-INCOME	2	28.57	5	50.00
MOD-INCOME	2	28.57	2	20.00
MID-INCOME	1	14.29	1	10.00
UPP-INCOME	2	28.57	2	20.00
TOTAL *	7	100.00	10	100.00

\*Totals do not include 20 consumer loans with missing information and 10 loans located outside the bank's assessment area. Additionally, five mortgage loans were not located inside the bank's assessment area.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The break-down by income levels of the census tracts within the bank's assessment area is detailed below:

<b>INCOME CATEGORY</b>	<b>NUMBER OF CENSUS TRACTS</b>	<b>PERCENT OF TOTAL CENSUS TRACTS</b>
<b>LOW-INCOME</b>	4	13.33
<b>MOD-INCOME</b>	13	43.34
<b>MID-INCOME</b>	9	30.00
<b>UPP-INCOME</b>	4	13.33
<b>TOTAL TRACTS</b>	30	100.00

The above chart indicates the bank has a presence in the low- and moderate-income tracts. Therefore, the record of lending in these areas is acceptable.



A review of the bank's distribution of loans in its assessment area among low-, moderate-, middle-, and upper-income geographies was performed on the sampled loans. The analysis of loan distribution among the various census tracts revealed a sufficient allocation of loans. The chart below details the loan distribution in each income category by loan type.

Loan Sample by Census Tract						
	Commercial Loans		Mortgage Loans		Consumer Loans	
Income Category	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type
LOW-INCOME	0	0.00	0	0.00	0	0.00
MOD-INCOME	17	57.00	3	42.86	5	19.00
MID-INCOME	9	30.00	3	42.86	13	48.00
UPP-INCOME	4	13.00	1	14.28	9	33.00
TOTAL *	30	100.00	7	100.00	27	100.00

\*Totals do not include 19 commercial loans, five mortgage loans, and 10 consumer loans with missing information or located outside the assessment area.

## RESPONSE TO COMPLAINTS

The institution has not received any written complaints regarding its CRA performance since the last examination.

